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This is a message from AIT Director Young to Representative Costello and the members of his delegation.

1. (SBU) My AIT team and I are looking forward to your visit, which will help underscore the importance of the U.S.-Taiwan relationship. I will meet you upon arrival at the airport Saturday afternoon, August 9, and, with my AIT team, will provide you a briefing after your check-in at the hotel. At that time, we can review details of your schedule, discuss issues that might come up during your visit, and answer any questions you might have. The people and leaders of Taiwan, who view the U.S. as their most important international partner, will highly appreciate your visit here. While we are not planning any special press activities, the media will be present at some of the events in which you participate.

Taiwan: A Successful Democracy . . .

2. (SBU) Taiwan today is a successful democracy and a thriving economy. Ma Ying-jeou's inauguration on May 20 represents a milestone in democratic consolidation as it marks the second peaceful transfer of power since Taiwan instituted direct presidential elections in 1996. The vigorous campaign, the remarkable voter turnout rate on March 22 -- 76 percent -- and the smooth and peaceful election process all demonstrate the importance the people of Taiwan attach to their hard-won freedom. Taiwan highly appreciates the support provided by the U.S. for the shared value of democracy, as well as U.S. support for Taiwan's security and cross-strait stability. In a congratulatory statement to President-elect Ma after the March 22 election, President Bush praised Taiwan as "a beacon of democracy to Asia and the world," a phrase President Ma repeated in his May 20 inauguration speech.

. . . and a Thriving Economy

3. (SBU) In recent decades, Taiwan has also built one of the world's most impressive economies, transforming a largely agrarian economy into a manufacturing and high-tech powerhouse. With only 23 million people, Taiwan ranks as the world's 19th-largest economy, and enjoys a per capita GDP of

nearly USD 17,000, or around USD 30,000 at purchasing power parity. On the back of strong technology exports to China and other Asian economies, Taiwan posted 5.7 percent GDP growth last year, and unemployment is under 4 percent. Despite its prosperity, Taiwan faces increasing competition from China and other low-cost producers, and has seen substantial manufacturing job loss across the Strait. Real wage growth has been low in recent years, and there is widespread public concern about stagnant living standards, increasing income disparity, and declining competitiveness. Like the rest of Asia, Taiwan is also feeling the effects of the current global slowdown.

#### Ma's Mandate and Challenges

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¶4. (SBU) President Ma Ying-jeou came into office with a strong mandate and high expectations, having defeated his opponent by 17 percentage points. Ma's decisive victory reflected his clean image and personal popularity, the public's disillusionment with performance problems and scandals of the Chen administration, and the desire of voters for their government to focus on economic rather than "national identity" initiatives. Ma's pledges to improve economic performance and cross-Strait relations, especially economic relations, were important factors in his election victory.

¶5. (SBU) During the campaign, Ma touted the KMT's reputed economic policy prowess, raising high public expectations for rapid economic progress. Like others, however, Taiwan is now

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confronting an increasingly difficult external economic environment. The stock market has slumped in line with global trends, and inflation, driven by spiraling energy costs, may surpass 5 percent in 2008. This is relatively low for the region but a significant increase over the 1.8 percent rate posted last year. Similarly, Taiwan's 4.78 percent 2008 GDP growth forecast marks a slowdown from 2007 and a disappointment for a Ma administration that campaigned on a promise of 6 percent growth. Impatient for quick results, the public feels let down that the new administration has not produced the immediate economic improvements they were expecting. According to mid-July polling, public dissatisfaction with the administration has increased progressively over its first two months in office, with 60 percent of the people dissatisfied and just 27 percent satisfied with Ma's performance. Therefore, the primary challenge facing Ma now is to improve the economy. His administration has many plans on the boards, ranging from energy conservation to infrastructure projects, with the primary focus on attracting investment capital.

#### Cross-Strait Relations

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¶6. (SBU) Although the public faults Ma's early economic performance, he receives relatively high marks for improving cross-Strait relations. Taiwan has a major economic stake in China, and there is broad though not universal support for the Ma administration's policy to further expand economic links with China, which already features over USD 100 billion in cumulative investment from Taiwan. Also, there are roughly one million Taiwan citizens resident in China. Under the previous administration, cross-Strait progress seemed too slow for many in Taiwan, and relations were marred by continual political friction between the two sides. Since Ma's inauguration in May, the administration has moved quickly to restore the long-suspended cross-Strait dialogue, implement regular weekend cross-Strait passenger charter flights, allow PRC tour groups to come directly from the mainland and raise the daily ceiling on the number of PRC tourists permitted to visit Taiwan. The government has also announced plans for further cross-Strait steps, including relaxing restrictions on Taiwan investment in the PRC.

Although the majority generally welcomes cross-Strait opening, some argue that the new steps will not produce the rapid economic benefits to the people of Taiwan that they have been led to expect.

¶7. (SBU) According to public opinion polling, the great majority in Taiwan wish at a minimum to maintain the current political status quo under which Taiwan completely runs its own affairs in a democratic manner. Given the political divisions within Taiwan, Ma understands the need to proceed cautiously and also to reach out to the opposition. He will continue to need positive responses from China in order to move forward on his cross-Strait agenda. How quickly and how far Beijing will be willing to go in accommodating Taiwan on sensitive issues, such as Taiwan's quest for more "international space," remains an important question. We are encouraging both sides to expand dialogue and improve their relationship, taking advantage of the new opportunity presented by Ma's election. We particularly urge Beijing to reduce its military threat and to take a flexible and constructive approach on sensitive issues, such as Taiwan's participation in international organizations.

#### U.S.-Taiwan Relations

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¶8. (SBU) One key task facing Ma is to rebuild the traditional strong trust in U.S.-Taiwan relations that was damaged by a series of controversial initiatives taken by the previous administration. Your visit will help underscore the importance the U.S. attaches to Taiwan and the U.S. desire to strengthen U.S.-Taiwan relations. Ma, who studied in the U.S. and speaks excellent English, has assured me of his personal commitment to strengthen Taiwan's relations with the U.S. Just after your visit, Ma departs on August 12 for a

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trip to Paraguay and the Dominican Republic, and during this trip he plans to make low-key transit stopovers in San Francisco and Los Angeles. We are working to ensure Ma's first transits go smoothly, which will help rebuild confidence and strengthen our relationship.

#### U.S. Support for Meaningful International Participation

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¶9. (SBU) Despite the absence of formal diplomatic relations since 1979, the U.S. maintains strong unofficial ties with Taiwan through AIT, under the provisions of the Taiwan Relations Act. The U.S. provides strong support to Taiwan's democracy, self-defense, and economic prosperity. In accordance with our one China policy, we do not support Taiwan's membership in international organizations that are limited to sovereign states, such as the UN. However, we do support Taiwan's membership in other organizations, such as WTO and APEC, and we also champion meaningful participation by Taiwan in organizations where membership is not possible, such as the WHO.

#### Taiwan's Security

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¶10. (SBU) For over 50 years, the U.S. has been Taiwan's indispensable defense partner, and the only country willing to supply major weapons systems in the face of PRC objections. Security will continue to be an important consideration as Taiwan moves to expand cross-Strait relations. A strong-self defense capability gives Taiwan the confidence it needs to engage China from a position of strength rather than weakness, a point that Ma has repeatedly emphasized since taking office.

#### U.S.-Taiwan Economic Relations

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¶11. (SBU) U.S.-Taiwan economic relations are strong and

growing. Taiwan is our ninth-largest trading partner, with nearly USD 64 billion in bilateral trade in 2007. The 2007 U.S. trade deficit with Taiwan was approximately USD 11.9 billion. The U.S. is the largest foreign investor in Taiwan, with over USD 16 billion in cumulative investment. The U.S. develops its trade and economic relationship with Taiwan through a bilateral Trade and Investment Framework Agreement (TIFA), established in 1994. Through TIFA, we have made substantial progress in improving Taiwan's enforcement of intellectual property rights, and are increasing market access for U.S. pharmaceuticals. We are exploring the possibility of negotiating a bilateral investment agreement (BIA) with Taiwan, and are also urging Taiwan to accede to the WTO Government Procurement Agreement (GPA).

¶12. (SBU) Taiwan is our sixth-largest market for agricultural exports. Our current agenda is dominated by efforts to open the Taiwan market to the full range of U.S. beef imports, and to resolve ongoing import restrictions on U.S. pork products. In your meeting with President Ma, it would be helpful for you to underscore our interest in progress on these two priority issues.

#### Cooperation on Maritime Cargo Security

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¶13. (SBU) Since 2004, the U.S. and Taiwan have been working together to strengthen security of international sea freight through the Container Security Initiative (CSI), which is being implemented at the ports of Kaohsiung and Keelung. As one of our partners in this important global initiative, Taiwan is helping to enhance the safety of sea cargo transiting Asia, prevent smuggling of drugs and counterfeit currency, and reduce violations of intellectual property rights.

¶14. (SBU) Another noteworthy example is the Megaports initiative to prevent the smuggling of nuclear or radioactive materials. Since 2006, we have been working with Taiwan to

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increase the security of a critical part of the global supply chain. Taiwan's participation in the Megaports initiative is clear proof of its commitment to countering international terrorist threats.

#### High Speed Rail (HSR)

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¶15. (SBU) With a total construction value of USD 18 billion, Taiwan's state-of-the-art High Speed Rail (HSR) system is the largest build-operate-transfer (BOT) project in Taiwan's history. Opened in January 2007, HSR now operates 70 northbound and 68 southbound trains daily, averaging about 85,000 passengers per day. Trains travel at up to 186 mph, allowing travelers to make the 200 mile Taipei-to-Kaohsiung trip in just over 90 minutes. Planned with the goal of generating economic benefits for central and southern cities that have lagged behind cities in the north, the new system has more closely integrated Taiwan's densely populated "western corridor", and it is affecting a variety of economic and business patterns. For example, in the first four months of operation, the HSR reduced demand for seats on Taiwan's domestic air routes by 25 percent, while prices for land adjacent to the HSR zoned for commercial use have surged 200 to 300 percent since 2004.

#### FTA

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¶16. (SBU) You may hear official Taiwan support for launching free trade agreement (FTA) negotiations with the U.S. Given the pending U.S.-South Korea FTA, many here view a similar agreement as essential for Taiwan's continued economic competitiveness, as well as a more fundamental sign of U.S. support. The U.S. is preoccupied with completing our pending

bilateral FTAs, however, and we are urging Taiwan to use the TIFA forum as a vehicle for enacting the economic reforms that would make it a more attractive potential FTA partner in the future.

#### Deep Linkages Between Taiwan and the U.S.

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¶17. (SBU) Most people in Taiwan have a quite positive attitude toward America, and many have either visited or studied there. Students from Taiwan are the fifth largest foreign student group in the U.S., and nearly half of the incoming cabinet members hold advanced degrees from American universities. Large communities of Taiwanese-Americans also tie our two peoples together. With this reservoir of goodwill and close connections, we are confident U.S.-Taiwan relations will continue to develop robustly under the Ma administration and beyond. Your visit will help strengthen our traditional friendship with the people and leaders of this beautiful island.

YOUNG